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EX PARTE OR LATE FILED

March 19, 1997

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Federal Communications Commission
Office of Secretary

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. Rm. 222
Washington, D.C. 20554

Re: CC Docket No. 96-262

Yesterday, on behalf of Bell Atlantic and NYNEX, Bob McDonnell, Allan Mettler, Ken Rust, and I met with Jim Schlichting, Richard Cameron, Richard Lerner, and Steve Spaeth of the Competitive Pricing Division to discuss the above referenced proceeding. Due to the late hour at which the meeting ended this ex parte is being filed today.

Please enter this letter and attached material into the record as appropriate. Should you have any questions regarding this material please do not hesitate to contact me.

Sincerely,



Attachment

cc: J. Schlichting
R. Cameron
R. Lerner
S. Spaeth

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List ABCDE

Bell Atlantic/NYNEX Access Reform

March 18, 1997

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Access Reform - General Principles

- Provides consistency with the Telecommunications Act
- Reduces access revenue by competitive forces - not regulatory fiat
- Provides pricing flexibility as required in a competitive market
- Provides elements of compromise and competitive balance
- Keeps the public infrastructure robust and healthy as competition grows

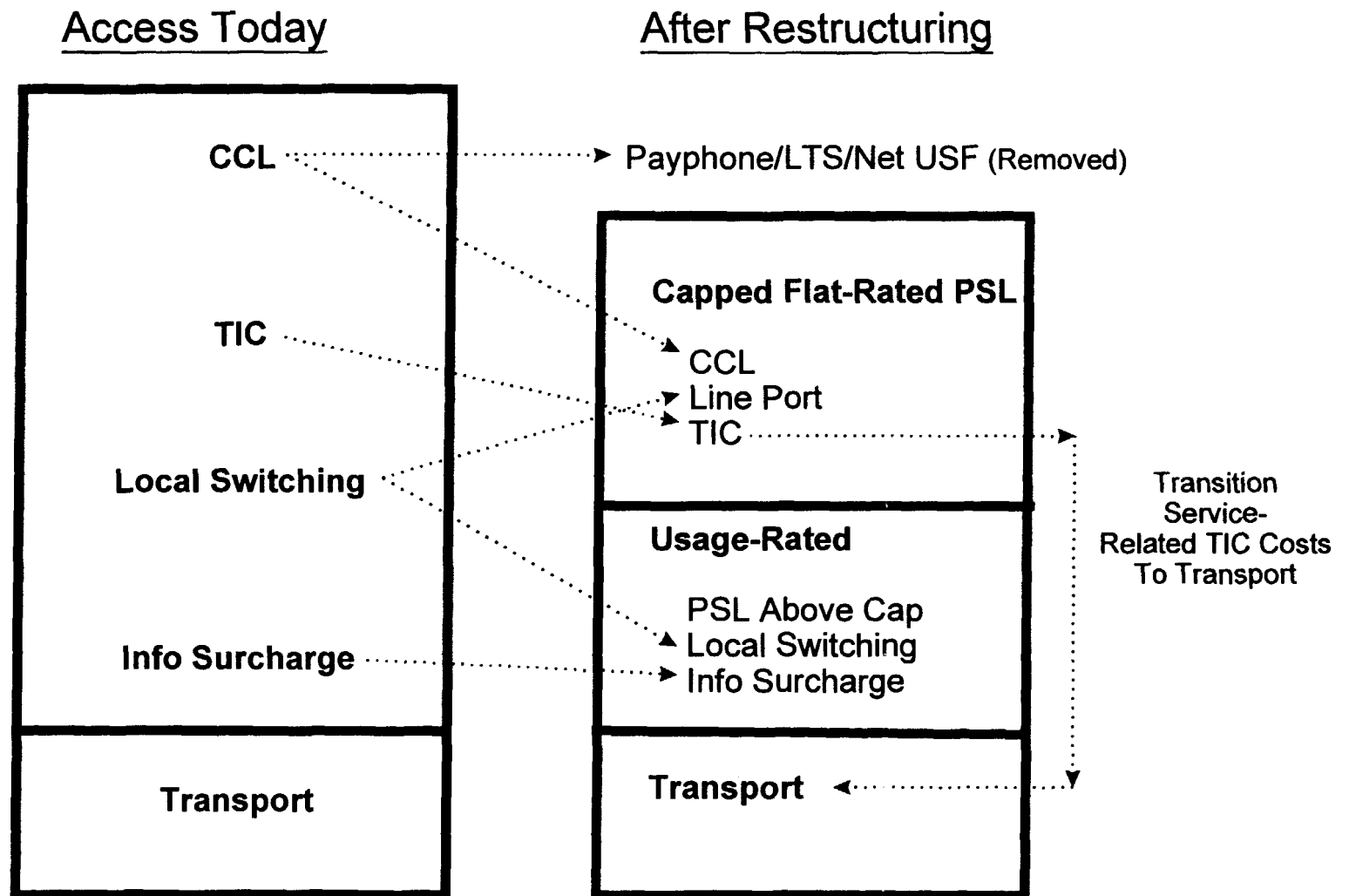


Rate Structure

- Four elements
 - » SLC
 - » Flat rate presubscribed line charge (PSL)
 - » Usage charge
 - » Tandem and transport
- No change to SLC
- Flat rate PSL charged to IXC's based on
 - » CCL (excluding payphone and LTS)
 - » Line port costs portion of local switching
 - » TIC
 - » Capped at \$2 for residence and \$3 for business
- Simplified usage charge to include:
 - » Local switching (excluding the line port)
 - » Information surcharge
 - » Costs above PSL cap
 - » Originating and terminating distinction is eliminated for all carriers
- Service-related TIC migrates to transport over five years

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Rate Structure And Transitioning



Benefits Of Flat-Rated PSL

- Prevents over-recovery of NTS charges by high volume end-users
- Moves NTS costs to a slower growing demand units (e.g., lines)
- Sets caps
 - » Provides relief to carriers serving larger share of low-use customers
- Differentiates cap for residence (\$2) and business (\$3)
- Billed to IXC's
 - » Flexibility to recover through variety of toll plans and bundled service plans
 - » Recognizes the market value of presubscription (e.g., customer ownership)



Benefits Of Proposed Restructuring Of The TIC

- Satisfies court remand
 - » Identifies service- and separations-related components
 - » Provides specific transition to cost related rate elements
 - » Identifies separations-related components and charges on an equitable manner
- Benefits of transitioning the service-related TIC to transport
 - » Provides a transitional policy for small carriers
 - Permits commission to monitor impact on small carriers
 - Provides correct economic signals
 - » By avoiding an immediate and significant increase in tandem rates (e.g. 400%), it provides IXC's, CLECs and LECs time to reconfigure their networks more efficiently
 - » Bell Atlantic/NYNEX would be able to maintain a unitary rate structure option for tandem users because the transition plan will provide incentives for customers to migrate to a more economically rational network structure

Benefits Of Lower Usage Charge

- IXC's and end-users benefit from lower usage rates
 - Usage charges are better aligned with costs
 - IXC's pay lower average access charges on all additional demand
 - With capped PSLs, Net USF receipts will effectively reduce usage charges



Benefits From Eliminating Originating And Terminating Price Distinction

- Terminating rates will be no higher than originating rates
 - Allows market forces to control terminating rates in the same way it controls originating rates
 - Simplifies pricing
- Applies to all carriers
 - Limits abuses by new entrants
 - Reduces need for regulatory surveillance



Commission Must Address Under-Recovery Of Depreciation

- Longer depreciation lives that resulted under regulation have created an amortization deficiency that needs recovery now as competition pushes the industry towards shorter and more meaningful economic lives
- The required depreciation shortfall “catch-up” is estimated at \$4.5B for the large LECs and SNET
- This recovery can be collected directly from the IXC's based on a percent of access charges paid to LECs on a three year average

A Comprehensive Package Is Required

- A comprehensive package will:
 - Send the correct economic signals to the market place
 - Permit carriers some certainty in managing in a competitive market
 - Provide future direction and certainty to investors
- Components of a comprehensive package
 - Rate structure changes
 - Price cap reform
 - Pricing flexibility

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Price Caps - Proposal And Benefits

- Proposal
 - Decide price cap structure now as part of a comprehensive access reform order that will act as the final transition mechanism to full competition
 - » X-factor should reflect historical TFP
 - » X-factor should reflect change to flat rate recovery
 - » Remove competitive services (DA, IS, Special...)
 - » Consolidate remaining services into one basket
 - » Continues the elimination of sharing
- Benefits
 - Simultaneous resolution of access reform and price cap structural issues provide certainty for carriers, consumers and investors
 - Future price cap adjustments will be linked to economic performance
 - LECs will continue to reduce real prices
 - LECs will have the appropriate incentives to invest in new technologies and services

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Pricing Flexibility - Proposal And Benefits

- Proposal - to relax regulatory constraints upon state approval of an interconnection agreement
 - Permits geographic and product deaveraging
 - Grants flexibility for volume-term arrangements, contract pricing and RFPs
 - Immediately removes competitive services from price cap regulation
- Benefits
 - Allows market forces to result in competitive rates
 - Provides for the eventual deregulation of access services
 - Provides consumers with a greater choice of pricing alternatives
 - Encourages rapid market-based rate reductions

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